MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/ 2023

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

05 July 2023
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages (including the cover page) with **3 QUESTIONS** only.

2. Answer **ALL** questions and the distribution of the marks for each question is given.

Please Answer all the Questions

Mini Case

The directors of Fam Industries Bhd are currently considering the acquisition of Bear Bhd as part of its expansion programme. Fam industries Bhd his interests in machine tools and light engineering while Bear Bhd is involved in magazine publishing. The following financial data concerning each company is available:

Statement of Comprehensive for the year ended 30 November 2022

	Fam Industries RM in millions	Bear RM in millions
Sales turnover	465	289
Profit before interest and taxation	114	43
Interest payable	(5)	(9)
Profit before taxation	109	34
Taxation	(26)	9
Net Profit after taxation	83	25
Dividends	(8)	(12)
Retained profit for the year	75	13

Statement of Financial Position as at 30 November 2022

Fixed assets	105	84
Net current assets	86	38
	191	122
Less creditors due beyond one year	(38)	(58)
	153	64
Capital and reserves		
Ordinary shares	50	30
Retained profit	103	34
	153	64
Price: earnings ratio prior to bid	16	12

The ordinary share capital of Fam Industries Bhd consists of RM0.50 shares and the shares of Bear Bhd consists of RM1 shares. The directors of Fam Industries Bhd have made an offer of four shares for every five shares held in Bear Bhd.

The directors of Fam Industries Bhd believe that combining the two businesses will lead to after tax savings in overheads of RM4 million per year.

Required:

a) Calculate:

i) Total value of the proposed bid (16 marks)

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ii) The earnings per share for Fam Industries Bhd following the successful takeover of Bear Bhd (24 marks)

iii) the share price Fam Industries Bhd following the takeover, assuming that the price; earnings ratio is maintained and the savings are achieved. (5 marks)

Total: 45 marks

b) Comment on the value of the bid from the viewpoint of both Fam Industries Bhd and Bear Bhd. **(35 marks)**

c) Identify, and briefly discuss, two reasons why the managers of a company may wish to take over another company the reasons identified should not be related to the objective of maximizing shareholder wealth. **(10 marks)**

d) Why may equity be preferable to debt financing during a company's start-up phase? **(10 marks)**

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